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SUBJECT: KAZAKHSTAN: RISING BREAD PRICES PRESENT CHALLENGE  
FOR GOVERNMENT

¶1. (U) Summary: The price of bread has increased by thirty percent in Kazakhstan over the last two months. The bread crisis has galvanized opposition parties, who have been vocal in their criticism of the government. The People's Communist Party has started a petition campaign in protest against the rise in costs, and other parties have expressed their support for the campaign. The government has reacted by placing bakeries on the list of enterprises subject to state regulation. Prime Minister Masimov has also stated that he has not ruled out introducing a state monopoly on bread making. End Summary.

¶2. (U) On September 27, representatives from Almaty bakeries announced that the price for a standard loaf of bread would rise to 55 tenge from 36 tenge as of September 29 (The average pension is 13,800 tenge, or just over \$100 a month). One FSN based in Almaty told Poloff that the price of a small loaf of bread at his local store has increased from 30 tenge to 82 tenge in less than two weeks. Similar sharp price hikes were recorded in Shymkent, Taraz, Atyrau, and Astana.

¶3. (U) Rising bread costs have occurred despite projections that Kazakhstan, the world's fifth largest grain exporter, will harvest a record-setting 20 tons of wheat. Government officials claim that conditions on the world market have led to the surging prices. Kazakhstan has also announced that it will soon begin to charge market rates for grain exports to the other nations of Central Asia.

¶4. (U) On October 1, Prime Minister Masimov stated publicly that he will consider introducing a state monopoly on bread-making if prices do not stabilize. "If in a week we fail to see certain measures and cooperation, I will make a decision about introducing a state monopoly," he said. Prime Minister Masimov said publicly "Prices are soaring everywhere because of monopolization of markets and there are no other explanations. In these circumstances, all akims have to resort to administrative resources to provide for free access to markets." As a result, Oblast and Almaty city akims were instructed to speak with large producers of flour and bread and to stabilize prices on the domestic market. All bakeries have been placed on the list of enterprises whose products will be subject to state regulation

¶5. (U) Opposition parties have criticized the government for the recent price increases. The People's Communist Party has started a petition campaign in protest of the increased bread prices. On September 27, Ak Zhol, Auyl, and Rukhaniyat political parties expressed their support for the petition campaign. The National Social Democratic Party released a statement blaming the government for not anticipating the spike in bread prices. They called on the government to

allocate funds from the state budget in order to provide assistance to those most affected by the increased cost of bread.

16. (SBU) Comment: The price of bread was a potent political symbol in the Soviet Union and remains so in Post-Soviet states. As a result, the surging price of bread is a matter of significant concern for the GOK and a first post-election opportunity for the opposition. With the rising bread costs tied to conditions on the world market, the question now is whether the GOK can maintain its free-market principles and resist the populist urge to introduce distortionary mechanisms.

MILAS